

Message Text

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TAGS: ENRG, CA

SUBJECT: ENERGY: BCEC REPORT ON 1976 OIL AND GAS HEARING

1. SUMMARY. B.C. ENERGY COMMISSION (BCEC) REPORT FINDS ENCOURAGING INCREASE IN LEVEL OF B.C. NATURAL GAS EXPLORATION ACTIVITY, BUT WARNS THAT DEMAND/SUPPLY SITUATION COULD SPELL CONTINUED TROUBLE FOR EXPORT VOLUMES. TO SUSTAIN HIGHER DEVELOPMENT ACTIVITY, BCEC RECOMMENDS HIGHER GAS PRICES FOR B.C.CONSUMERS. END SUMMARY.

2. B.C. ENERGY MINISTER DAVIS RELEASED ON OCTOBER 29 THE B.C. ENERGY COMMISSION'S REPORT ON THE "1976 PETROLEUM AND NATURAL GAS PRICE AND INCENTIVES HEARING." DAVIS SAID THE COMMISSION'S RECOMMENDATIONS WOULD NOW BE STUDIED BY CABINET AND ACTION TAKEN "BY THE MIDDLE OF NOVEMBER." ANDREW THOMPSON CHAIRMAN OF BCEC AT TIME THE REPORT WAS PREPARED (HE HAS NOW RETURNED TO UBC WHERE HE IS LAW PROFESSOR), HAS SAID THAT HE BELIEVES B.C. WILL "GO ALONG WITH MOST OF THE RECOMMENDATIONS."

3. MAJOR FINDINGS OF THE BCEC REPORT ARE AS FOLLOWS:

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A. EXPLORATION AND DEVELOPMENT ACTIVITY IMPROVED SUBSTANTIALY

OVER 1974/75 LEVELS AND 295 BCF OF GAS RESERVES WERE ADDED IN THE 1975/76 DRILLING SEASON. THESE NEW RESERVES REPRESENT ABOUT TWICE THE CURRENT B.C. DOMESTIC CONSUMPTION, BUT WERE NOT SUFFICIENT TO REPLACE TOTAL GAS SALES WHEN INCLUDING EXPORT VOLUMES. PREVALENT VIEW OF TECHNICAL EXPERTS IS THAT ANNUAL SUPPLY WILL NOW STABILIZE AT AROUND PRESENT LEVELS WITH INCREASING EXPLORATION AND DEVELOPMENT ACTIVITY.

B. GAS DOMESTIC DEMAND IS FORECAST TO GROW FROM 151 BCF IN 1975 TO ABOUT 320 BCF IN 1991, A COMPOUND GROWTH RATE OF 4.8 PERCENT. SUPPLY, ON THE OTHER HAND, IS FORECAST TO BE ADEQUATE TO MEET UNCONSTRAINED GROWTH IN DOMESTIC REQUIREMENTS UNTIL 1991, BUT THIS WOULD RESULT IN ONLY 95 BCF OF GAS AVAILABLE FOR EXPORT BY 1983, COMPARED WITH A LICENSED EXPORT VOLUME OF 295 BCF/YEAR. THUS, SEVERE ENERGY SUPPLY DISLOCATIONS IN THE US PACIFIC NORTHWEST WOULD BE THREATENED IF THE SUPPLY SITUATION CONTINUES TO DETERIORATE IN RESPECT OF VOLUMES AVAILABLE FOR EXPORT. THE AVAILABILITY OF ARCTIC GAS IN THE EARLY 1980'S COULD SUBSTANTIALLY AMELIORATE THE SITUATION OF DIMINISHING EXPORT VOLUMES.

4. MAJOR SUMMARY RECOMMENDATIONS OF THE BCEC REPORT:

A. B.C. SHOULD ENCOURAGE INCREASED LEVELS OF EXPLORATION AND DEVELOPMENT BY RAISING NATURAL GAS FIELD PRICES FROM PRESENT DOLS.35 FOR "OLD GAS" TO DOLS.40 ON NOVEMBER 1 AND TO DOLS. 0.60 ON JANUARY 1/77 WHEN THE EXPORT PRICE RISES TO DOLS. 1.94 PER MCF. FOR "NEW GAS," FIELD PRICES WOULD RISE FROM PRESENT DOLS. .55 TO DOLS. .75 ON NOVEMBER 1 AND TO DOLS.0.85 ON JANUARY 1/77

COMMENT: THE WELL-HEAD PRICE RISE IS NOT AS HIGH AS IT SEEMS BECAUSE IT IS ALSO RECOMMENDED THAT THE INCOME TAX INDEMNIFICATION SCHEME, WHEREBY B.C. PRODUCERS ARE INDEMNIFIED BY THE PROVINCIAL GOVERNMENT AGAINST FEDERAL INCOME TAX PAYABLE ON "PHANTOM"INCOME, BE TERMINATED AS OF JANUARY 1/77. TERMINATION OF THIS SCHEME WOULD REQUIRE B.C. LEGISLATIVE ACTION. THOMPSON ESTIMATES THAT THE "TRUE " PRICE RISE WOULD BE ONLY "A COUPLE OF CENTS."

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B. NEW OIL ROYALTY SCHEDULES SHOULD BE ADOPTED WHICH WILL EFFECTIVELY REDUCE THE AVERAGE RATE ON OLD OIL FROM 46.9 PERCENT TO 40.4 PERCENT, AND ON NEW OIL FROM 28.1 PERCENT TO 21.9 PERCENT.

5. COPIES OF REPORT BEING MAILED TO EUR:CAN AND EMBASSY.
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